COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE TARIFF APPLICATION OF GENERAL TELEPHONE COMPANY OF KENTUCKY TO RESTRICT THE AVAILABILITY OF TERMINAL EQUIPMENT	)	CASE NO. 8464

O R D E R

On February 11, 1982, General Telephone Company of Kentucky ("General") filed a tariff with the Commission proposing restrictions on the availability of terminal equipment. Specifically, General proposed that new, additional, or replacement installations of terminal equipment be limited to equipment available from existing inventory. General also proposed that leases of terminal equipment to new customers be limited to the shortest contract period applicable to the particular equipment.

By Order entered February 25, 1982, the tariff was suspended for investigation and possible hearing for 5 months from the proposed effective date of March 9, 1982. On March 17, 1982, General filed additonal information related to its proposed tariff, and a public hearing was held on July 1, 1982. There were no intervenors represented at the hearing, and no protests were entered.

Discussion

At the hearing, General presented testimony relative to five questions which were posed in the Order of June 16, 1982, which set the matter for hearing. The first question concerned the types of terminal equipment included in the tariff proposal.

The types of equipment include key systems, PBX systems, data systems (including teletypewriters), and miscellaneous equipment such as voice paging, answering, and recording equipment. The majority, in terms of quantity and cost involved, are in the general category of multi-line equipment such as the key and PBX systems. These types of equipment are subject to current competition from various unregulated sources, and in fact the Federal Communications Commission, in its Computer II Inquiry, proposed that terminal equipment not in place as of January 1, 1983, be deregulated. Additionally, under proposed changes to the separations manual used by General and other telephone utilities to divide toll revenues, terminal equipment will become a greater burden to the intrastate jurisdiction. The capping of equipment in inventory will help to alleviate this burden. For these reasons the Commission finds it appropriate to limit the availability of tariffed terminal equipment.

The second question concerned the current inventory levels of affected terminal equipment. General supplied an inventory summary of major types of equipment, and after consideration, the Commission finds these inventory levels sufficient to assure a gradual and reasonable transition from the traditional tariffed offering of such equipment.

The third question was whether the public interest would be served by permitting General to lease terminal equipment from current inventory solely for the shortest contract period applicable to the particular affected equipment. The evidence presented indicates that the majority of customers have opted for the shortest contract period. Therefore, General's proposal would be responsive to the existing market. Additionally, as a result of rapidly evolving technology and uncertainty about an unregulated terminal equipment environment, the Commission finds it in the public interest for General to recover its capital investment in this equipment as quickly as possible. We therefore accept this portion of General's proposal.

The fourth question concerned General's plans for maintenance of tariffed, leased equipment. General would maintain this equipment for as long as it is viable to do so, which would mean as long as such items as manufacturer maintained software, and spare and maintenance parts are available. General further testified that the long-term interests of both the customer and General would best be served by this arrangement. The Commission accepts this explanation of General's proposal, but advises General that it will have the burden of proving that a particular type of tariffed equipment is no longer maintainable.

The final question was at what price levels would existing business equipment be sold. General testified that its objective is to sell embedded equipment at price levels which would recover net book investment. The Commission is aware that market demand varies from product to product, and that it may not be realistic to recover net book investment from each sale. However, we find that in the aggregate General should make every effort to recover, as a minimum, the net book investment plus avoidable costs, such as negotiation and transaction costs involved in the sales effort. If this is not achieved, the burden of proof will be on General to explain its failure to do so.

Additionally, in accordance with the accounting treatment in the Uniform System of Accounts, General's rate base will be reduced by any aggregate net gain derived from the sale of current inventory equipment. To the extent the rate base is reduced, basic service ratepayers will benefit.

One additional area was discussed at the hearing. This was General's current program of unregulated sales of terminal equipment in conjunction with Business Communications Service ("BCS"), a GTE subsidiary. Under this program, General acts as an agent of BCS in distributing and marketing business communications equipment.

We find that General's activities in this area are an acceptable business venture. However, it is clearly understood that General's ratepayers do not stand to benefit from any profits if the unregulated business venture is successful. Therefore, it must be equally understood that those ratepayers will not subsidize the unregulated venture in any way, nor will those ratepayers be responsible for any losses which may occur.

We have addressed the issue of proper expense allocation procedures for unregulated terminal equipment sales in our Order in Case No. 8258, dated March 1, 1982. In that case, General requested authority to sell single line terminal equipment on a detariffed basis. General was required to develop accounting procedures for deregulated accounting for single line equipment. These procedures were filed on July 1, 1982.

General testified at the hearing that the procedures filed also included accounting procedures for the sale of multi-line business equipment. Those procedures are currently under consideration by this Commission. Following that review, and further public hearing if necessary, a final Order in Case No. 8258 will be issued which will also deal with accounting procedures for multi-line equipment sales. At that time, General may be required to make retroactive adjustments to its books,

Findings and Order

The Commission, having considered this matter and being advised, is of the opinion and finds that General's proposal to restrict the availability of business terminal equipment is reasonable, in the public interest, and should be approved, subject to the restrictions contained herein.

IT IS THEREFORE ORDERED that on and after the date of this Order, General's tariff of February 11, 1982, in this matter be and it hereby is approved subject to the restrictions contained herein. The pages of the tariff hereby approved are:

General Exchange Tariff

Section 2:	Original Page 2.1
	2nd Revised Page 3.9
Section 3:	2nd Revised Page 7
	4th Revised Page 7.1
	1st Revised Page 7.2

Section 12:	Original Page A.1
Section 14:	Original Page A.1
Section 16:	Original Page A.1
Section 19:	Original Page A.1

IT IS FURTHER ORDERED that within 20 days of the date of this Order, General shall file its tariffs approved herein in the form prescribed by the Commission's regulations

Done at Frankfort, Kentucky, this 9th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Linda Garrigan
Commissioner

ATTEST:

Secretary